

Message Text

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ACTION EUR-12

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TO SECSTATE WASH DC PRIORITY 8767

INFO USMISSION NATO

UNCLAS SECTION 01 OF 02 OECD PARIS 26330

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TAGS: AORG, OECD, NATO

SUBJECT: CCG PENSION SCHEME

REFS: (A) STATE 238584, (B) STATE 237277, (C) USNATO

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1. SUMMARY: MISSION ASSUMES THAT DRAFT PROPOSAL REFERRED TO IN REF A IS NOT INTENDED TO APPLY TO OECD PENSION SCHEME. USE OF SUCH PROPOSAL IN OECD CASE WOULD RAISE SERIOUS LEGAL AND OTHER QUESTIONS OUTLINED IN PARA 3 BELOW. IN ORDER TO AVOID THESE PROBLEMS AND DEVELOP A SYSTEM WHICH COULD BE APPLIED MORE GENERALLY AMONG THE COORDINATED ORGANIZATIONS, MISSION MAKES SUGGESTIONS CONTAINED PARA 4 BELOW AS POSSIBLE ALTERNATIVE PROCEDURE FOR NATO WHICH COULD ALSO BE USED IN OTHER ORGANIZATIONS. END SUMMARY.

2. MISSION ASSUMES FROM PARA 2(E) OF REF B THAT DEPARTMENT'S CONCERN IS LIMITED TO A SPECIFIC SITUATION OBTAINING IN NATO, NOT REPEAT NOT APPLICABLE TO OECD AND THEREFORE INSTRUCTION IN REF A APPLIES ONLY TO NATO.

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3. IN ANY EVENT, PROPOSAL REFERRED TO IN REF A CAN

NOT BE APPLIED TO OECD FOR FOLLOWING REASONS:

(A) OECD LEGAL SITUATION DIFFERS FROM THAT IN NATO, SINCE OECD PENSION SCHEME LEGALLY CAME INTO FORCE ON JULY 1, 1974. THE DECISION OF THE OECD COUNCIL IS BINDING AND THE 94TH REPORT WAS SUFFICIENTLY SPECIFIC ON ALL ESSENTIAL POINTS OF THE PENSION SCHEME AS TO GIVE RISE TO VESTED RIGHTS FOR THE STAFF, WHETHER SERVING OR RETIRED AND WHETHER OR NOT THEY HAVE EXERCISED THEIR OPTION WITHIN THE INITIAL TWELVE-MONTH PERIOD.

(B) USE OF THE CANADIAN PROPOSAL PRESUMABLY WOULD RETROACTIVELY REDISTRIBUTE GAINS AND LOSSES RELATIVE TO LOCAL CURRENCIES, AND WOULD PROBABLY RESULT IN A DIFFERENT FRENCH FRANK VALUE FOR EACH EXISTING SHAREHOLDER IN THE PROVIDENT FUND THAN HAS ALREADY BEEN REPORTED TO HIM ANNUALLY AND AS OF JULY 1, 1974. ALL CONTRIBUTIONS TO THE PROVIDENT FUND WERE VALUED IN THE BOOKS OF THE FUND IN FRANCS AT EXCHANGE RATES RULING ON DATES PAID IN. SINCE THESE FRENCH FRANC VALUES WERE REPORTED ANNUALLY TO THE MEMBERS OF THE FUND, EACH MEMBER HAS KNOWN AT ALL TIMES THE FRANC VALUE OF HIS SHARE OF THE FUND. MEMBERS SHARES IN THE FUND ARE IN EFFECT SUB-ACCOUNTS OF WHICH EACH MEMBER IS LEGAL PROPRIETOR. ANY RECALCULATION OF THESE AMOUNTS WHICH WOULD YIELD DIFFERENT FRANC VALUES FOR THE INDIVIDUAL ACCOUNTS (AS IS EXPECTED TO BE THE CASE IF THE CANADIAN METHOD IS USED), WOULD VIOLATE THAT PORTION OF THE OECD STAFF MANUAL WHICH SPECIFIES THAT VESTED RIGHTS MEANS THAT AMENDMENTS TO STAFF REGULATIONS CANNOT DEPRIVE OFFICIALS OF ANY FINANCIAL OR OTHER BENEFIT WHICH HAS ACCRUED UNDER THESE REGULATIONS BEFORE THEIR AMENDMENT.

(C) IF THE FRANC VALUES OF INDIVIDUAL ACCOUNTS WERE REVISED, IT IS CERTAIN THAT THE OECD STAFF ORGANIZATION WOULD BRING LEGAL ACTION AGAINST THE OECD.

(D) THE PROPOSAL BY THE CANADIAN REPRESENTATIVE TO CCG THAT UNITS OF ACCOUNT OF CONSTANT VALUE SHOULD BE USED TO COMPUTE VALIDATION COSTS WOULD, IN THE VIEW UNCLASSIFIED

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OF OECD OFFICIALS, RESULT IN AN AGGREGATE TOTAL FOR THE FUND WHICH IS MUCH LARGER THAN THE AGGREGATE VALUE OF THE REAL ASSETS PRESENTLY HELD IN THE INVESTMENT PORTFOLIOS OF THE FUND. (IF THE UNIT OF CONSTANT VALUE IS USED TO COMPUTE VALIDATION COSTS, IT MUST ALSO BE USED TO COMPUTE VALIDATION COSTS, IT MUST ALSO BE USED TO COMPUTE ALL PAST CONTRIBUTIONS AS WELL AS INVESTMENT GAINS AND LOSSES AND THE OUSTANDING BALANCES

IN MEMBER ACCOUNTS).

(E) EXCHANGE LOSSES HAVE NEVER APPEARED IN THE ACCOUNTS OF THE OECD PROVIDENT FUND. GAINS OR EARNINGS OF THE FUND HAVE BEEN USED TO COMPENSATE, CURRENTLY, EXCHANGE LOSSES AND ESPECIALLY THE DEPRECIATION OF THE FRENCH FRANC OVER THE YEARS. THE MINUTES OF THE

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OEEC COUNCIL WHICH ARE BINDING ON THE OECD CLEARLY STATE THAT GAINS OR LOSSES ON THE PROVIDENT FUND, WHETHER THROUGH INVESTMENT OR BY CHANGES IN PARITY, ARE TO BE BORNE BY THE STAFF ALONE. NO GUARANTEE WAS GIVEN BY GOVERNMENTS AT THAT TIME, ALTHOUGH IT WAS ASKED FOR. THE CANADIAN SYSTEM WOULD IGNORE THESE LOSSES.

4. IN VIEW OF THE OVERWHELMING LEGAL CLAIM OF THE STAFF AS WELL AS THE POLITICAL STAND TAKEN BY SOME OECD MEMBER COUNTRIES, IT IS CLEAR THAT IT WILL NOT BE POSSIBLE TO OBTAIN UNANIMOUS OECD COUNCIL DECISION

TO INSTITUTE CANADIAN PROPOSAL. ONLY TWO REAL OPTIONS
REMAIN: THE FIRST IS TO APPLY THE CANADIAN SYSTEM TO
NATO ONLY AS APPARENTLY INTENDED BY THE DEPARTMENT.
THE SECOND IS TO CONTINUE SEARCHING FOR A UNIFIED
SCHEME WHICH COULD BE APPLIED TO ALL COORDINATED ORGAN-
IZATIONS. AS A CONTRIBUTION TO SUCH AN EFFORT WE
SUGGEST THAT THE FOLLOWING PROCEDURE MIGHT BE APPLIED
TO NATO. THIS PROCEDURE IS BASED ON NATO'S OWN CONTRI-
BUTION AND INVESTMENT HISTORY. WITH MINOR ADJUSTMENT
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THIS METHOD WOULD ALSO BE APPLICABLE TO OECD.

(A) VALIDATION COSTS WOULD BE COMPUTED IN FRENCH-
FRANCS FROM THE INCEPTION OF THE NATO ORGANISATION
UNTIL THE DATE ON WHICH NATO MOVED TO BELGIUM (I.E.
21 PERCENT AT 4 PERCENT COMPOUND INTEREST). THE TOTAL
OF THIS PARTIAL ACCOUNT IN FRENCH FRANCS COULD BE
MAINTAINED WITH A COMPOUND RATE OF INTEREST UNTIL L.7.
74.

(B) VALIDATION COSTS WOULD THEN BE CALCULATED IN
BELGIAN FRANCS FOR THE PERIOD DURING WHICH THE PROVI-
DENT FUND WAS HELD IN THAT CURRENCY, AND THE AMOUNTS
ACCRUING TO GOVERNMENTS AT THE END OF THAT PERIOD
COULD BE COMPUTED AT 4 PERCENT INTEREST UNTIL L.7.74.

(C) A THIRD AND LAST PART COULD BE COMPUTED ON THE
BASIS OF CONTRIBUTIONS PAID INTO THE PROVIDENT FUND
FROM THE TIME THE FUND WAS RUN ON A UNIT OF ACCOUNT
SYSTEM (I.E. THE CANADIAN PROPOSAL MIGHT APPLY HERE,
BUT AMENDED TO TAKE ACCOUNT OF THE ACTUAL NATO UNIT OF
ACCOUNT SYSTEM).

5. THE ABOVE SUGGESTIONS FOR COMPUTING VALIDATION
COSTS FOR NATO, IN A WAY WHICH WOULD BE APPLIED TO ALL
COORDINATED ORGANIZATIONS, HAS BEEN DEVISED BY THE
MISSION'S ADMINISTRATIVE AND FINANCIAL/MONETARY OFFICERS
ON THE BASIS OF NUMERICAL EXAMPLES. THEY BELIEVE THAT
THERE IS NO SUBSTITUTE FOR WORKING THROUGH THE INDIVID-
UAL ACCOUNTS OF PROVIDENT FUND HOLDERS, AS OECD HAS
DONE, TO ARRIVE AT AN ACCURATE VALUE FOR THE SEPARATE
HOLDINGS OF INDIVIDUAL ACCOUNT MEMBERS AS WELL AS AN
IDENTIFIABLE VALIDATION COST, THEREBY SOLVING PROBLEMS
RAISED BY REVALUATIONS AND DEVALUATIONS OF THE CURREN-
CIES IN WHICH VARIOUS MEMBERS ARE PAID, AND IN WHICH
THEY HAVE MADE THEIR CONTRIBUTIONS TO THE FUNDS. THE
CANADIAN SYSTEM IS A GLOBAL APPROACH WHICH ATTEMPTS TO
BYPASS THE ESSENTIAL TRACKING-THROUGH OF INDIVIDUAL
ACCOUNTS, AND WHICH CAN NOT, IN OUR VIEW, RESULT IN A
REALISTIC OR ACCEPTABLE SOLUTION.

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